

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-281-S

IN RE:)
)
Application of Palmetto Utilities, Inc.)
for adjustment of rates and charges)
for, and modification to certain terms)
and conditions related to,)
the provision of sewer service.)

PREFILED REBUTTAL
TESTIMONY OF
MARK S. DADAY
ON BEHALF OF PALMETTO
UTILITIES, INC.

1 **Q. ARE YOU THE SAME MARK S. DADAY THAT HAS PREFILED DIRECT**
2 **TESTIMONY IN THIS CASE?**

3 A. Yes, I am.

4 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. The purpose of my rebuttal testimony is to respond to the pre-filed direct testimonies of
7 Daniel P. Hunnell II, Daniel F. Sullivan, Christina L. Seale, and Charles E. Loy on behalf
8 of the South Carolina Office of Regulatory Staff, or “ORS”.

9 **Q. DO YOU DISAGREE WITH ANY PORTIONS OF THESE TESTIMONIES?**

10 A. Yes. Below I will provide a summary of the ORS expense adjustments with which the
11 Company disagrees. While I appreciate that ORS accepted a number of our proposed
12 accounting adjustments, I would like to say that portions of Mr. Hunnell’s and Mr. Loy’s

1 testimonies mischaracterize our positions – some of which appears intended to cast the
2 Company in a false or negative light.

3 **Q. CAN YOU PROVIDE SOME EXAMPLES OF THESE**
4 **MISCHARACTERIZATIONS?**

5 A. Yes. In his testimony at page 9 on lines 22 and 23, Mr. Hunnell he states that “the
6 Company[s] proposal [is] to phase-in [free of interest charge] any increase authorized by
7 the Commission” when in fact the Company only proposed to phase-in the requested
8 increase – not any increase. Also, the Company in its application offered an alternative to
9 a full increase of the requested increase, that would benefit the customers. It even stated
10 in the application that the “[a]lternative is provided for discussion purposes only, and if the
11 PSC finds it objectionable in any respect, it can be ignored.” I believe that the Commission
12 is receptive to different ideas and proposals that would benefit customers. In response to
13 the Company offering this alternative, ORS witness Hunnell chastises the Company at page
14 10, lines 4 and 5 of his testimony by asserting that the alternative “lacked transparency”
15 and then asserts that it “would violate the fundamental principle of matching costs and
16 revenues” which, under Generally Accepted Accounting Principles, or “GAAP,” it would
17 not. Under his incorrect understanding of the matching principle, the phase-in he states
18 that ORS would accept would also violate that principle. This kind of negative
19 commentary does not help to resolve disputed issues, which I understand is what ORS is
20 supposed to do under its statutory charge.

21 **Q. WOULD YOU PLEASE PROVIDE A SUMMARY OF THE COMPANY’S**
22 **DISAGREEMENT WITH PROPOSED ORS EXPENSE ADJUSTMENTS?**

1 A. Yes. The Company disagrees with the following ORS proposed adjustments:

- 2 a. Bad Debt Expense adjustment
- 3 b. Elimination of Bonus Expense
- 4 c. Pro-forma Customer Growth
- 5 d. Rate Case Expenses
- 6 e. Tax Cuts and Jobs Act Income Tax Adjustment

7 **Bad Debt Expense adjustment**

8 **Q. WHAT ADJUSTMENT DID ORS MAKE TO REDUCE BAD DEBT EXPENSE?**

9 A. By ORS adjustments 2C and 19, Mr. Hunnell recommends reducing the allowed bad debt
10 percentage to 1.78% of revenue from its current 2.50%, which he bases on the Company's
11 five-year loss history.

12 **Q. WHY DO YOU DISAGREE WITH THIS ADJUSTMENT?**

13 A. The Company believes that the currently approved 2.50% bad debt percentage should
14 remain given that:

- 15 1. The 2.50% bad debt percentage is consistent with what the ORS recommended, and
16 the Commission accepted in prior Commission Order Number 2018-155 for
17 Palmetto Utilities, Inc.
- 18 2. A five-year history is not representative of the Company's current bad debt
19 experience. The Company has experienced losses at an average of 2.30% over the
20 last three years and feels this is more representative of current experience.
- 21 3. The Company has seen a recent decrease in year-to-year cash collections. From
22 March 1, 2020 through May 29, 2020, collections are down approximately 4% and

1 are expected to deteriorate further. Customer balances that are 90 days past due are
2 up by 20% as of May 30, 2020 compared with May 30, 2019. The Company has
3 informed ORS of this a number of times. The Company believes that it would be
4 improper to reduce the bad debt percentage to reflect four and five year old data at
5 a time when current data shows a trend in the opposite direction. Although the
6 Company is not seeking recognition of this trend in its proposed bad debt
7 percentage due to its recency and short-term, we believe that reducing the
8 previously approved percentage is an improper recommendation by ORS.

9 **Q WHAT IS THE EFFECT ON ALLOWABLE EXPENSE OF THE ORS**
10 **ADJUSTMENT REDUCING BAD DEBT EXPENSE?**

11 A. The ORS adjustment decreases allowable expenses by \$162,495.

12 **Elimination of Bonus expense**

13 **Q. DOES THE COMPANY AGREE WITH MS. SEALE'S PROPOSED**
14 **ADJUSTMENT NUMBER 5 ON BEHALF OF ORS?**

15 A. No, it does not agree for many reasons and submits that the entire amount claimed by the
16 Company should be included in its allowable expenses.

17 **Q. WOULD YOU PLEASE DESCRIBE THESE REASONS?**

18 A. Yes. One reason is Ms. Seale's inaccurate recitation of facts involving the Company's
19 prior rate proceeding. I was primarily responsible for the application submitted to the
20 Commission and testified in the hearing in that case. In that proceeding, the Company
21 simply did not include bonuses in its calculation of corporate overhead. So, no bonuses

1 were “removed” by the Company and it never “designated the bonuses as nonallowable.”
2 And, the Commission’s order in our last rate proceeding does not even refer to bonuses. I
3 would note that Ms. Seale was not the ORS auditor or a witness in the last PUI rate relief
4 proceeding. Even if she had been, that would not change the fact that she has incorrectly
5 suggested that PUI has previously acknowledged that bonuses are non-allowable.

6 **Q. WHY DID PUI NOT INCLUDE BONUSES IN THE CORPORATE OVERHEAD**
7 **CALCULATION IN THE COMPANY’S LAST RATE CASE APPLICATION?**

8 A. The reasons were multiple. First, the Company was already seeking a very significant rate
9 increase of 86.4% for “legacy” PUI customers and 63.6% for its customers formerly served
10 by the City of Columbia. The size of that requested increase was primarily reflective of
11 the Company’s approximately eighty million dollars of new plant investment that the
12 Commission allowed in rate base plus the eighteen million investment in the acquisition of
13 the City of Columbia facilities that PUI and ORS later stipulated would be addressed in
14 this case. As the Commission will recall, PUI in fact initially proposed a phase-in of its
15 requested rate relief in that proceeding for the very reason that the increase in depreciation
16 expense alone, if included in allowable expenses for a single rate increase, would have
17 been too much of a burden on our customers. And for that same reason, the Company did
18 not seek to have its rates set based on the return on rate base methodology. Against that
19 backdrop, I decided to recommend to corporate management that bonuses not be included
20 in the corporate overhead expense allocation and it agreed with that course of action. Of
21 course, it is true that simply because an expense is incurred does not make it allowable.
22 But it is also true that simply because an allowable expense is not sought in one case does
23 not make it nonallowable in another. ORS’s suggestion that what the Company did in its

1 last rate proceeding bears on the allowability of bonuses in this case is a good illustration
2 of the adage “no good deed goes unpunished.”

3 **Q. WHAT IS YOUR BASIS FOR ASSERTING THAT BONUSES ARE ALLOWABLE**
4 **EXPENSES?**

5 A. There are any number of Commission orders in which bonuses have been allowed.
6 Because Ms. Seale has referred to the Commission’s order in the last rate relief proceeding
7 involving Palmetto Wastewater Reclamation LLC, or “PWR,” I would begin with an order
8 issued by the Commission in a 2007 rate relief proceeding involving Woodland Utilities,
9 Inc., which, is of course now PWR. Interestingly, Ms. Seale was the ORS auditor and
10 witness in that proceeding and filed settlement testimony in which she recommended to
11 the Commission that it allow 14% of the “performance related bonuses” for “officers and
12 employees shared between” the utility and its affiliate, Alpine Utilities, Inc., which is also
13 now PWR. I attach as MD Rebuttal Exhibit 1 this portion of Ms. Seale’s testimony in that
14 2007 proceeding. The Commission adopted Ms. Seale’s recommendation in the order
15 approving the settlement in that proceeding and, consistent with her recommendation in
16 the Woodland Utilities, Inc. case, Ms. Seale sponsored settlement testimony in a 2008 rate
17 relief proceeding for Alpine Utilities, Inc. in which she recommended allowance of a
18 portion of “merit based bonuses for current employees.” I attach as MD Rebuttal Exhibit
19 2 this portion of Ms. Seale’s testimony in that 2008 proceeding. The Commission adopted
20 Ms. Seale’s recommendation in the order approving the settlement in that proceeding. In
21 reviewing the files of Woodland and Alpine that the Company can locate, I do not see
22 where in either of these proceedings ORS required the utility to provide a written bonus
23 policy. To the contrary, in the Woodland proceeding, ORS issued its Audit Exam Question

1 1.29 which is identical to its Request Number 1.37 in this case. A copy of the request made
2 in the Woodland case and the utility's response is attached as MD Rebuttal Exhibit 3.

3 **Q. HAVE MERIT-BASED COMPENSATION AND BONUSES BEEN RECENTLY**
4 **ADDRESSED IN A UTILITY RATE CASE BEFORE THE COMMISSION?**

5 A. Yes. In Docket Number 2018-318-E "lump sum merit payments" to employees of Duke
6 Energy Progress LLC were not sought to be excluded by ORS as nonallowable. *See* Pre-
7 filed Surrebuttal Testimony of Kelvin L. Major, March 25, 2019, p. 12, ll. 4-6, a copy of
8 which is attached as MD Rebuttal Exhibit 4. In its order in that proceeding, the
9 Commission also allowed the utility to recover in expenses a portion of the bonuses
10 awarded to certain of its employees, also based in part upon ORS's recommendation. I
11 have attached as MD Rebuttal Exhibit 5 pages 82-87 of Order No. 2019-341. I would note
12 that some of the bonuses at issue there, including portions disallowed by the Commission,
13 appear to have involved upper level management not involved directly in the operation of
14 that utility on a day to day basis. In this instance, all bonuses given in the test year were
15 given to persons involved in the day to day operations of PUI.

16 **Q. WHAT OTHER REASONS ARE THERE FOR THE COMPANY'S**
17 **DISAGREEMENT WITH THIS PROPOSED ADJUSTMENT?**

18 A. Another reason is that Ms. Seale's assertion that the bonuses are not known and measurable
19 is also incorrect. Ms. Seale's testimony only recites portions of the Company's responses
20 to ORS's demands for information regarding bonuses, fails to fully describe the Company's
21 responses, and attaches none of the documents submitted in support of these responses.
22 Giving her the benefit of the doubt, I am assuming that Ms. Seale did not attach the

1 responses and documents produced to ORS by the Company because she knows that ORS
2 is precluded by statute from publicly disclosing any information produced to the agency
3 under S.C. Code Section 58-4-55 without first seeking the Commission's permission --
4 although two of ORS's other witnesses felt unobligated to comply with that statute. The
5 Company has filed a motion with the Commission addressed to this conduct, which it
6 believes to be a clear violation of law. Without waiving any of PUI's rights -- particularly
7 those with respect to Ms. Seale's testimony in this regard -- I am attaching the Company's
8 complete responses to each of the demands made by ORS that are referenced in Ms. Seale's
9 testimony as MD Rebuttal Exhibit 6, with only the names of the personnel receiving
10 bonuses redacted to protect their privacy. Should the Commission determine that it needs
11 to review these names, the Company would be happy to provide them to the Commission
12 under seal. As the Commission can see, the responses provided by PUI contain much more
13 pertinent detail than Ms. Seale's testimony might suggest.

14 **Q. WOULD YOU PLEASE ELABORATE ON YOUR LAST STATEMENT?**

15 A. Yes. With respect to ORS request #1.37, which only asks for the Company's practices and
16 procedures regarding bonuses, the Commission can see that PUI provided far more
17 information than just the two sentences quoted by Ms. Seale. In fact, the information
18 provided goes well beyond the question ORS asked in an effort to be as forthcoming as
19 possible with the details concerning the PUI bonus policy and procedures by providing (1)
20 the frequency bonuses are paid, which is annually; (2) the number of key managers who
21 receive these annual bonuses, which is seven; (3) the monetary ranges of these bonuses,
22 which are \$4,000 to \$20,000; (4) the goals entering into the determination to pay a bonus,
23 including objectives related to safety, compliance with regulations, customer service, or

1 achieving budget targets; and (5) the fact that six non-management personnel received
2 bonuses ranging from \$1,000 to \$2,500. Thereafter, the Company's response describes in
3 detail reasons why the bonus policy benefits customers and discloses that I, as President
4 and Chief Financial Officer, and Bryan Stone as Senior Vice President of Operations, also
5 receive annual executive level bonuses.

6 Regarding the Company's response to ORS Audit Request #16, Ms. Seale simply states
7 that "the Company's bonus payouts have steadily increased and have more than doubled
8 since 2015." Again, this statement fails to tell the entire story as the request sought detailed
9 information regarding the "average bonuses" paid for years 2015 through 2019 for every
10 employee or officer and direction with respect to the accounts in which bonuses were
11 recorded by the Company. While Ms. Seale's statement that bonuses "have more than
12 doubled since 2015" is accurate as far as it goes, it is somewhat misleading as it does not
13 tell the entire story. An example of this is that Ms. Seale fails to mention that of the \$90,392
14 increase between 2015 and 2017, \$70,000 of that was attributable to the first-time inclusion
15 of executive level bonuses -- which this Commission and ORS have allowed in the past in
16 the Woodland and Alpine cases and the recent Duke Energy Progress proceedings I have
17 mentioned. Nor does Ms. Seale inform the Commission of the fact that between 2017 and
18 2019, the amounts of bonuses given were relatively consistent from year to year. This
19 bears directly on their known and measurable nature.

20 ORS's Audit Request #8 was curious to me in that ORS asked in its Request #1.37 for an
21 explanation of the Company's bonus practices and procedures but never suggested in its
22 later request there that a written policy did or should exist. In any event, the Company's
23 incentive compensation policy was fully described to ORS in the response to Request

1 #1.37. Ms. Seale omits the fact that ORS Audit Request #8 also asked if the Company paid
2 any incentive compensation in the test year even though that information had been supplied
3 in our response to Request #1.37. Nonetheless, the information was provided again. Ms.
4 Seale also fails to mention that one of the attachments to the Company's response showed
5 that the Company's corporate overhead allocation did not include any bonuses for
6 personnel at the upstream, parent level -- which the Company believes is appropriate given
7 that none of these persons are involved in day-today management of the utility.

8 As to Audit Request #12, ORS mischaracterized in item 12.2 the Company's response to
9 ORS Request 1.37, which never stated that the Company had a "written Annual
10 Performance Bonus policy." While at first blush this may appear to be an insignificant
11 distinction, it is important to note ORS's use of imprecise terminology and unfortunate
12 attribution to the Company statements which it did not make. And this is even more
13 problematic in the context of Ms. Seale's contention that the Company has some obligation
14 to have a written bonus policy and her intimation that the Company was not initially
15 forthcoming in its production of books, records or other information. To our knowledge,
16 ORS did not require a written bonus policy for either Woodland or Alpine yet it
17 recommended allowance of performance or merit-based bonuses in both of those
18 proceedings. PUI has striven to be responsive to every request made by ORS, but we
19 cannot read minds. Ms. Seale's dismissive characterization of the information initially
20 provided by the Company responsive to ORS Request #12 is unfair in context and her
21 description of the information that was provided does not fairly explain the level or
22 substance of detail provided to ORS. This selective recitation and analysis are, frankly,
23 inequitable on ORS's part.

1 **Q. DO YOU AGREE WITH MS. SEALE’S CONTENTION THAT THE COMPANY**
2 **HAS LIMITED PERFORMANCE BENCHMARKS THAT ARE LINKED TO**
3 **COMPANY EARNINGS AND EARNINGS BEFORE INTEREST TAXES**
4 **DEPRECIATION OR AMORTIZATION, OR “EBITDA” AND THAT**
5 **“CUSTOMER[S] RECEIVE NO IDENTIFIABLE BENEFITS RELATED TO THE**
6 **PAYMENT OF BONUSES?”**

7 A. No, I do not. As MD Rebuttal Exhibit 6 establishes, there are performance benchmarks
8 unrelated to EBITDA including safety, regulatory compliance, and customer service. So,
9 the first of these contentions is demonstrably inaccurate. As to the second of these
10 contentions, Mr. Hunnell has testified on behalf of ORS that the Company meets all
11 Commission and DHEC requirements. And, the Commission can take note that of the
12 approximately 382 customer protest letters filed in this matter – which is about 1.3% of our
13 total customer base -- very few if any mention customer service or quality of service. We
14 think it self-evident that motivated personnel are the source of the Company’s enviable
15 record in these regards. In short, when met our performance benchmarks do provide and
16 have provided benefits to our customers.

17 **Q. SHOULD BONUSES BE DISALLOWED SIMPLY BECAUSE PERFORMANCE**
18 **BENCHMARKS ARE LINKED TO EBITDA?**

19 A. No, they should not. This is a particularly disingenuous position on the part of ORS. As
20 ORS knows, PUI is not a publicly traded entity and not the subsidiary of any publicly
21 traded entity. This is seen in ORS’s recommendation of an assumed capital structure of
22 55% debt and 45% equity for the Company – which we also disagree with. In the Duke

1 Energy Progress proceeding I mentioned, ORS recommended that half of the utility's test
2 year bonuses should be disallowed because they were tied to that entity's earnings per share
3 ("EPS") and total shareholder return ("TSR"). See MD Rebuttal Exh. 4, p.3, l. 20 – p.5,
4 l.15. For an entity that is not publicly traded, I believe that Earnings Before Interest Taxes
5 Depreciation and Amortization, or EBITDA, is a very reasonable substitute for EPS and
6 TSR in terms of benchmarking employee performance as it also measures the Company's
7 performance -- especially in cost control which is important to limit future rate increases.
8 Rather than adopting the position it took in the Duke Energy Progress proceeding which
9 recommended disallowing only half of the bonuses for that utility, ORS in this case takes
10 the position that no bonuses are appropriate. And to get to that position, ORS misstates
11 what happened in our last rate case regarding the issue of bonuses and omits the full extent
12 and substance of our responses to ORS's demands for production regarding this topic in
13 this proceeding. In these circumstances, I think the ORS recommendation is improper and
14 that the Company should be allowed every bit of the bonus expense it has claimed.

15 **Q. WHAT EFFECT DOES ORS'S PROPOSED ADJUSTMENT TO REMOVE**
16 **BONUSES HAVE?**

17 A. Ms. Seale asserts that the effect is to reduce the Company's allowable expenses by
18 \$334,687. If accepted by the Commission, which the Company believes would be
19 inappropriate, the adjustment would actually total \$245,359, which is the portion of the
20 bonuses allocable to PUI. The future effect is that the Company will need to consider
21 employee salary increases in order to ensure that we can attract and retain good employees
22 through competitive wage packages. The Commission recognized in the Duke Energy
23 Progress proceeding that bonuses serve a valid purpose. While we believe that our bonus

1 policy is preferable in this regard as it insulates the Company and our customers from the
2 costs of employee turnover, ORS's unpredictable and inconsistent treatment of bonuses
3 will leave us little choice but to increase salaries if the Commission accepts its
4 recommendation.

5 **Proforma Customer Growth**

6 **Q. DO YOU AGREE WITH THE ORS PRO-FORMA ADJUSTMENT ADDING A**
7 **YEAR OF CUSTOMER GROWTH TO THE CALCULATION OF THE RATE**
8 **INCREASE"**

9 A. Once again, ORS has made a proposed adjustment seemingly for the sole purpose of
10 artificially lowering the amount of the proposed rate increase. Mr. Hunnell states that "to
11 capture additional revenue and expenses by customers which **may be added**", the ORS
12 made adjustments 8 and 22, which add a year of **estimated** customer growth and its
13 resulting margin it yields to the company's adjusted test year revenue and expense; this has
14 the effect of reducing the proposed rate increase. There is no way this growth can be known
15 and measurable -- especially in view of the fact our collections are currently down by 4%
16 which means that customer growth does not necessarily translate into revenue growth.
17 Further, in the previous Palmetto rate case in Docket Number 2017- 228-S, the ORS argued
18 and the Commission agreed that, with respect to the doubled capacity of our Spears Creek
19 Wastewater Plant that was already operating, the Company's estimates of the future cost
20 of sludge disposal, chemicals and testing were insufficient to make these costs known and
21 measurable. This determination was based on the ORS argument that these costs were not
22 known and measurable for the next 11 months, notwithstanding the fact that the Company

provided a fact based estimate of these costs based on current costs and the fact that ORS had removed the cost of wholesale treatment charges the Company had paid to the City of Columbia in the test year before the expanded plant came on line. Given that accounting adjustment, ORS's "estimated" growth should not be accepted as known and measurable in this case.

Q. WHAT IS THE EFFECT TO TEST YEAR REVENUE OF THESE ITEMS?

A. The effect of the ORS recommended adjustment increases (revenue less expenses) under items 8 and 22 are \$72,956 and \$10,053, respectively.

Rate Case Expenses

Q. WHAT HAS ORS PROPOSED FOR RATE CASE EXPENSES?

A. ORS has proposed \$224,456 for rate case expenses, which reflects the amount expended by the Company plus amounts associated with ORS's expert witnesses through February 25, 2020. However, as of the filing of Ms. Seale's testimony, the Company had provided ORS with documentation of over \$369,413 in rate case expense. I would note \$116,338 of that total are expenses the Company has paid to outside witnesses retained by ORS to assist it in the valuation of the PRC plant and cost of capital analysis in this proceeding. By contrast, the Company has incurred expenses of \$92,252 for outside witness work related to the PRC plant valuation and cost of capital analysis in this proceeding that is also included in that \$369,413. The level of rate case expense is due not only to the work on the PRC plant value issue, but also due to the inordinately high number of demands for production of books, records, and other information made by ORS, which including subparts total four hundred sixteen with one hundred and seventy of them having been

1 issued by Mr. Hunnell alone. As has been the case in all of the Company's other rate relief
2 proceedings since 2004, the Company will provide to ORS for audit and examination
3 additional rate case expenses incurred through the date of hearing and will thereafter verify
4 and submit them to the Commission for approval.

5 **Tax Cuts and Jobs Act related Adjustments**

6 **Q. DO YOU AGREE WITH THE ORS CALCULATION OF THE EXCESS**
7 **CORPORATE FEDERAL INCOME TAX EXPENSE?**

8 A. No. The Company believes no return of excess taxes is due under the 2017 Federal Tax
9 Cuts and Jobs Act, or "TCJA," as it constitutes retroactive ratemaking and single expense
10 ratemaking as discussed in my direct testimony and in Company witness Gary Walsh's
11 direct and rebuttal testimonies. Essentially, ORS is asking that the Commission disregard
12 the question of whether the Company has been earning in excess of its approved operating
13 margin (which is not the case, even after all of the ORS adjustments reflected in Ms. Seale's
14 Exhibit CLS-1 are applied) and order the Company to recognize a reduction in one expense
15 that is subsumed within our current rate to the exclusion of increases in other expenses
16 subsumed within that rate after the fact. Certainly, ORS would not recommend that the
17 Company be allowed to charge customers after the fact for an increase in these other
18 expenses by simply increasing our rates to reflect these additional expenses. Yet, that is
19 the proper corollary to draw from this recommendation. That aside, in reviewing the
20 calculation in ORS witness Sullivan's testimony (Exhibit DFS-2) -- which was updated by
21 ORS and provided to us only a few days before our rebuttal testimony was due -- ORS uses
22 the amounts listed in the allowed figures for the 2017 test year from the previous PUI rate

1 case (Commission Order No. 2018-155) for expenses and revenue in order to calculate the
2 potential “benefit” to be returned to ratepayers for the period of January 1, 2018 to the
3 expected date of this rate order, August 6, 2020. Again, this method ignores the fact that
4 the Company’s operating expenses and revenues have increased during that time thereby
5 reducing the actual amount of tax benefit that could be given to ratepayers if our retroactive
6 ratemaking and single expense ratemaking arguments are not accepted. Even assuming a
7 refund were required, it would be lower than the \$2,001,430 proposed by ORS. To
8 correctly calculate this “benefit,” actual revenues earned and actual expenses incurred
9 during the time period in question should be included and the reduced tax liability
10 determined using the 34% (old) and 21% (new) federal income tax rate. This calculation,
11 to the estimated date of this order (August 6, 2020) produces a potential refund amount of
12 only \$347,065 as demonstrated in my MD Rebuttal Exhibit 7 attached. Moreover, the
13 Company is aware that the Commission has ordered refunds relating to the effect of the
14 TCJA in other proceedings and respectfully disagrees that this is required in our case. But
15 if it is, the ORS calculation reflected in Mr. Sullivan’s Revised Exhibit DFS-2 appears to
16 me to be inconsistent with the calculation method the Commission has approved, most
17 recently in the CUC, Inc. rate case.

18 **Q. MR. HUNNELL STATES IN HIS DIRECT TESTIMONY THAT THE COMPANY**
19 **DID NOT ESTABLISH A REGULATORY LIABILITY TO TRACK AND DEFER**
20 **THE IMPACTS RESULTING FROM THE TCJA AS DIRECTED BY THE**
21 **COMMISSION; IS THAT CORRECT?**

22 **A.** While it is correct that the Company did not create and label an account as described by
23 Mr. Hunnell, his statement fails to tell the complete story. He also fails to recognize that

1 the Company has pending before the Commission a petition for rehearing in Docket
2 Number 2018-381-A that was filed on May 14, 2018, that has not been acted upon.
3 Moreover, he fails to recognize that the Commission has effectively deferred that issue to
4 this proceeding. Notwithstanding these facts, the Company did establish a liability,
5 although not denominated a “regulatory” liability in its general ledger, for potential refunds
6 to customers related to the TCJA in the event that the Commission rejects the Company’s
7 retroactive ratemaking and single expense ratemaking arguments. If the Commission does
8 reject them, the Company can transfer this liability to a regulatory liability account when
9 and if it is finally ordered to begin to refund the excess tax expense. So, there is no danger
10 that there will be a lack of data to establish the amount of this liability should it ever arise
11 as his testimony might suggest is the case.

12 **Q. DOES THE COMPANY AGREE WITH MR. HUNNELL THAT PUI SHOULD**
13 **DISCONTINUE USE OF THE 8.5% RATE IN THE CALCULATION OF THE TAX**
14 **GROSS UP FOR CONTRIBUTED PROPERTY?**

15 A. No. This is the rate the Company currently uses to discount the benefit of the tax
16 depreciation the Company receives for donated property in the calculation of the gross-up
17 factor the developers pay on donated property. The 8.5% was agreed to as part of a
18 settlement between the home builders and developers, ORS, and the Company filed in
19 Commission Docket Number 2017-381-A. It was never agreed, and never even discussed,
20 that the discount factor would ever change, much less change every time a rate case is filed.

21 **Q. MR. HUNNELL STATES THAT NOT REQUIRING A “REFUND” TO TAKE INTO**
22 **ACCOUNT THE REDUCTION IN FEDERAL CORPORATE INCOME TAX**

1 **RATES RESULTING FROM THE TCJA MAY VIOLATE THE MATCHING**
2 **PRINCIPLE; DO YOU AGREE THAT IS THE CASE?**

3 A. No, I do not. To begin with, Mr. Hunnell merely states that it “may” violate the matching
4 principle. So, he is not uncertain in this regard. Further, I believe that the effect of the
5 TCJA has nothing to do with the matching principle. But taking his assertion to its furthest
6 logical extension, anytime expenses do not match up with revenues, as is the case with
7 regulatory lag, Mr. Hunnell’s analysis means that there would be a violation of the
8 matching principle and be improper. Thus, according to Mr. Hunnell, a revenue true-up (a
9 rate adjustment up or down) would be required every time that happens. The Company
10 would gladly accept that treatment for all our expenses.

11 **Q. IS THE COMPANY STILL WILLING TO PHASE IN A RATE INCREASE IN**
12 **VIEW OF THE ADJUSTMENTS PROPOSED BY ORS?**

13 A. No, it is not. With the adjustments and ROE proposed by ORS (and not considering any
14 reduction from the TCJA) Palmetto would only realize an increase of \$2.39 per ERC per
15 month, 16.5% of the \$14.52 increase in monthly rates it requested.

16 **Q. MR. HUNNELL RECOMMENDS THAT THE COMMISSION REQUIRE THAT**
17 **PUI CONDUCT A COST OF SERVICE STUDY, OR “COSS,” PRIOR TO FILING**
18 **ITS NEXT RATE CASE AND REPORT THE RESULTS OF THAT TO THE**
19 **COMMISSION AND ORS; IS THE COMPANY WILLING TO DO THAT?**

20 A. Yes. PUI committed to conduct a study with respect to its rate design at the four voluntary
21 Town Hall meetings we conducted for our customers on January 28 and 29, 2020. ORS
22 personnel were in attendance at each of these meetings and would have heard my statement

1 making that commitment. I presume Mr. Hunnell is unaware of this fact as he does not
2 mention it in his testimony. This commitment was conditioned on the Company's ability
3 to obtain accurate, timely and affordable meter readings from the City of Columbia and the
4 other water suppliers.

5 **Q. HAS THE COMPANY TAKEN ANY STEPS IN THAT REGARD?**

6 A. Yes. On February 10, 2020, I wrote to the City of Columbia requesting that it advise with
7 respect to the availability and cost of water meter reading data for the Company's service
8 territory in Richland County, the contractual terms it would offer in that regard, and its
9 ability to offer "real-time" data. On May 6, 2020, the City responded indicating that
10 although it did not currently offer that service to wastewater utilities on any scheduled
11 basis, a "high level overview" by the City indicated that the City's fee would be fifty cents
12 per meter reading. Copies of these items of correspondence are attached to my testimony
13 as MD Rebuttal Exhibit 8. Based on our number of customer accounts in Richland County,
14 that fee would result in an annual charge to the Company of about \$168,000. The City's
15 response also indicates that it is currently "upgrading to an automated meter reading
16 system" but that data will continue not to be available to PUI until after the City's monthly
17 customer water bill has been processed. As Mr. Walsh notes in his rebuttal testimony, the
18 Company has experienced problems with the accuracy of meter reading data received from
19 the City in the past. As he also notes, the City's meter replacement program will not be
20 completed until 2021. The Company is a City water customer at our office located within
21 our service territory and we have not yet received a new meter.

1 **Q. MR. HUNNELL ASSERTS THAT THE COMPANY'S RATE DESIGN SHOULD**
2 **TAKE INTO ACCOUNT THE CHARGES IMPOSED ON "DUMP STATION**
3 **CUSTOMERS." DO YOU AGREE WITH THIS?**

4 A. No, I do not. Mr. Hunnell's testimony in this regard is based on a factually incorrect
5 premise when he asserts that "PUI serves ... dump station customers." As was explained
6 to him **twice** in the Company's response to his Water Operations Request #29, parts 5-6,
7 that is attached to his testimony, PUI does not have, serve, or charge any customers for the
8 use of the septage dump station that is owned and operated by Ni SC Environmental LLC,
9 or "NSC Environmental." To the contrary, and as was plainly stated to Mr. Hunnell in that
10 document, NSC Environmental is the Company's only customer with respect to treatment
11 of wastewater generated at the dump station. This is also explained in some detail in my
12 direct testimony at page 11, lines 9-24 where I discuss affiliate transactions.

13 **Q. BUT SINCE PUI ULTIMATELY RECEIVES REVENUE FROM NSC**
14 **ENVIRONMENTAL, ISN'T MR. HUNNELL'S CONCERN REGARDING ITS**
15 **IMPACT ON THE COMPANY'S RATE DESIGN STILL VALID?**

16 A. No, it is not for several reasons. First, Mr. Hunnell incorrectly asserts that "dump station
17 customers could be a significant driver of the Company's costs associated with electric
18 power, chemicals, and waste disposal." In addition to the fact that users of the NSC
19 Environmental facilities are not customers of PUI, the wastewater that is generated at the
20 dump station is transported to PUI's treatment facility by NSC Environmental at its sole
21 expense. Therefore, there is no electric cost incurred by PUI to either transport or receive
22 this wastewater for treatment. Second, NSC Environmental only accepts domestic and

1 commercial strength septage. So, there is no different or greater cost of chemicals to treat
2 this wastewater than any other wastewater PUI treats. Even if NSC Environmental did
3 accept industrial (or categorical) waste, it would be required under law and DHEC
4 regulation to be pre-treated to domestic standards before it could be received. Third,
5 although it is unclear what Mr. Hunnell means when he refers to “waste disposal” costs, it
6 does not cost PUI any more to discharge effluent into the Wateree River at the approved
7 discharge point in Kershaw County that is generated by NSC Environmental than it does
8 to discharge effluent generated by PUI’s customers. If Mr. Hunnell’s reference to “waste
9 disposal” costs is intended to address sludge disposal, the wastewater generated by NSC
10 Environmental actually has a lower cost of disposal since NSC Environmental uses its own
11 facilities, including a bar screen, grit screen, etc. to remove paper products, garbage, grease,
12 and other constituents found in domestic wastewater, stores that material, and then disposes
13 of it at its sole cost and expense. These are all costs that PUI incurs when it receives
14 influent wastewater from its customers, but avoids with respect to the influent it receives
15 from NSC Environmental. In addition, and as I testified to in the Company’s last rate relief
16 proceeding, the Company allocates to NSC Environmental by way of an intercompany
17 charge a portion of the costs we incur for sludge disposal. This allocation is based on the
18 gallons of wastewater it sends to the Company for treatment to account for the fact that this
19 wastewater is more concentrated than other types of domestic wastewater we treat. So, in
20 addition to imposing the full rate per single family equivalent on NSC Environmental, we
21 collect additional revenue from it to account for the nature of the wastewater it sends to the
22 Company for treatment.

1 **Q. ISN'T MR. HUNNELL RIGHT TO BE CONCERNED ABOUT THE COSTS**
2 **ASSOCIATED WITH NSC ENVIRONMENTAL CUSTOMERS USING THE**
3 **DUMP STATION?**

4 A. No. To begin with, his testimony in this regard is logically flawed. On one hand, he
5 observes that the costs associated with treatment of the wastewater the "dump station
6 customers" generate "may be less" because they "do not utilize the Company's collection
7 system." In fact, not only do the NSC Environmental customers not use the PUI collection
8 system, they also don't use our billing and customer service functions, our line inspection,
9 maintenance, and repair functions, or any of the other non-treatment services we provide
10 customers. But on the other hand, his testimony seems to suggest that because the rate
11 charged to NSC Environmental is the Company's full commercial rate, that needs to be
12 scrutinized in the COSS he proposes. To me, that begs the question of to what end would
13 such scrutiny be?

14 **Q. WOULD YOU PLEASE ELABORATE ON YOUR LAST COMMENT?**

15 A. Yes. It appears that Mr. Hunnell is suggesting to the Commission that the Company be
16 required to examine in the COSS he recommends whether the rate being charged to NSC
17 Environmental to treat wastewater generated from septage dumped by its customers should
18 *be lower* because of the fact that the Company incurs less cost to treat that wastewater than
19 it does for its own customers. In other words, it seems as if Mr. Hunnell is concerned over
20 the fact that the Company's charges to NSC Environmental actually subsidize our other
21 customers because it is paying the same rate that our other customers pay even though the
22 services our other customers receive have a higher cost. This appears to be plainly contrary

1 to the interests of all but one of our customers, which is an affiliated entity that the
2 Company cannot favor. This apparent concern over such subsidization is puzzling, but I
3 can see no other reason for Mr. Hunnell to even mention this issue. And this
4 recommendation is even more perplexing considering that Mr. Hunnell does not mention
5 the other subsidization concern which directly effects a majority of the Company's
6 customers.

7 **Q. AND WHAT IS THAT OTHER SUBSIDIZATION CONCERN?**

8 A. That concern is when going to a usage sensitive rate, in order to provide a meaningful
9 change to benefit low volume water use customers, their rates would have to be subsidized
10 by average use customers – those who use about six thousand gallons of water per month.
11 About 80% of the Company's costs are fixed costs meaning they don't change based on
12 customer usage. A traditional (pure cost based rate design) COSS allocates these costs
13 pro-rata evenly over each ERC (sometimes called a capacity charge). Thus, there could
14 very likely be little difference in the amount charged to a low-volume user versus a high-
15 volume user. The only solution is to cross-subsidize, meaning that some of the fixed cost
16 has to be captured in a base facilities fee, which is what the City of Columbia did for our
17 customers who were formerly served by the City. Average use customers could not protest
18 that cross-subsidization by the City because they were not residents and had no input into
19 the City's decision to engage in that practice. That is not the case any longer as the
20 Company's average use customers are able to question the fairness of a rate design that
21 allows low volume water users to escape their fair share of fixed costs in proceedings
22 before this Commission. This cross-subsidization concern and a solution to the issue of
23 customer input regarding it is discussed in more detail in Mr. Walsh's rebuttal testimony.

1 **Q. WHAT IS YOUR BASIS FOR SAYING THAT AVERAGE WATER**
2 **CONSUMPTION IS ABOUT SIX THOUSAND GALLONS PER MONTH?**

3 A. In addition to the statistics Mr. Walsh cites in his rebuttal testimony, I went back into the
4 Company's records and examined the water consumption data supplied by the City of
5 Columbia from February of 2017 through February of 2018, which is the last full twelve
6 month period for which the City provided that data under the terms of our contract
7 submitted to the Commission in Docket No. 2012-273-S. Those records demonstrate that
8 the average water consumption per customer was 6,107 gallons per month.

9 **Q. YOUR REBUTTAL TESTIMONY AND MR. WALSH'S REBUTTAL**
10 **TESTIMONY FOCUS ON AN ISSUE WHERE THE COMPANY IS SEEMINGLY**
11 **IN AGREEMENT WITH ORS; WHY IS THAT?**

12 A. As stated earlier, the Company is in agreement that a COSS is appropriate. But the issue
13 that a COSS is intended to address is more complex than just asking the Commission to
14 agree now to consider a consumption based rate design in a future rate case based on a
15 COSS. The recommendation that ORS makes does not go far enough in terms of
16 considering the import or impact of having the Company spend resources on an issue
17 where, in just our last rate case, ORS took a completely opposite tack. By our count,
18 approximately 382 customer protest letters have been received by the Commission in this
19 case. Mr. Hunnell states that the Company had 28,082 customers as of the end of February,
20 which means that approximately 1.3% of our customers have submitted written protest
21 letters. Even assuming that every one of these customers objects to the current rate design,

1 this is a small percentage and a fact that the Commission may want to take into account as
2 it considers the scope of the COSS that ORS recommends be performed.

3 **Q. DO YOU AGREE WITH MR. HUNNELL'S ASSERTION THAT THE**
4 **COMMISSION'S RECENT DECISION TO REQUIRE ANOTHER PUBLIC**
5 **UTILITY TO CONDUCT A COSS IS A BASIS THAT SUPPORTS HIS**
6 **RECOMMENDATION?**

7 A. No. As Mr. Walsh points out in his rebuttal testimony, the Commission has historically
8 employed a flat rate design for the majority of wastewater utilities and a consumption based
9 rate design is not the prevailing rate design for sewer companies that do not also provide
10 water. Also, the circumstances in the Blue Granite Water Company case relied upon by
11 Mr. Hunnell are different than our circumstances as Mr. Walsh notes. That said, once the
12 Company has access to accurate water meter reading data from the City of Columbia, it is
13 willing to utilize a usage sensitive rate design as long as that rate design allows for the
14 recovery of our total revenue requirement. This will necessarily include the costs
15 associated with obtaining meter reading data from the City and performing the wastewater
16 billing and addressing disputes our customers have with the City over their water meter
17 readings. Likewise, the Company is happy to conduct a COSS to inform the Commission
18 in this regard as we committed to our customers we would do in January. However, when
19 considering the ORS recommendation, the Commission should take into account that it
20 will be confronted with the difficult cross-subsidization issue that likely affects the
21 majority of customers I discuss above but which ORS does not mention. Mr. Walsh's
22 recommendation that the Commission consider requesting that ORS "ballot" customers
23 regarding this matter and actually take a position on the cross-subsidization issue is not

1 only a useful exercise, but is the proper recommendation under these circumstances. In
2 fact, this concept was suggested to me by a customer at one of our town hall meetings.

3 **Q. WOULD YOU PLEASE DESCRIBE DISCUSSIONS YOU HAVE HAD**
4 **REGARDING MR. HUNNELL'S REQUESTS?**

5 A. Yes. After having received, including subparts, approximately one hundred fourteen
6 requests from Mr. Hunnell by mid-February, many of which were duplicative of requests
7 made by other ORS personnel or which failed to appreciate that responsive information
8 had already been provided, I instructed our counsel to raise the issue with ORS counsel.
9 Thereafter, a meeting was arranged to address our concerns and was held at the ORS offices
10 on February 19, 2020. I attended along with Company Manager of Financial Planning and
11 Analysis Lauren B. Hutson and our attorney, John M. S. Hoefer. Present at this meeting
12 on behalf of ORS were Executive Director Nanette S. Edwards, Director of Utility Rates
13 and Services Ryder Thompson, Chief Legal Officer Jeffrey Nelson, Counsel Jenny
14 Pittman, and Counsel Christopher Huber. Mr. Hunnell was not, however, in attendance.
15 At this meeting, Mr. Hoefer and I expressed concern to ORS regarding the number, scope,
16 and extent of the demands being issued by Mr. Hunnell. No one from ORS at this meeting
17 asserted that PUI's production was deficient or expressed disagreement with any of the
18 objections made by PUI to that point. Our concerns were never acted upon by ORS,
19 however. In fact, quite the opposite resulted from the meeting.

20 **Q. WOULD YOU PLEASE ELABORATE?**

21 A. Yes. Subsequent to this February 19, 2020, meeting, Mr. Hunnell issued, including
22 subparts, another fifty-six demands for production to PUI in this matter. In their pre-filed

1 direct testimonies, Mr. Hunnell and Mr. Loy recite, describe, refer to, or attach thirty-one
2 of these demands, including subparts, for production made by ORS after February 19,
3 2020, including those to which the Company objected. At no point prior to the filing of
4 these testimonies did anyone at ORS assert to the Company that our responses to these
5 requests were deficient or that our objections were improper or unfounded. Based upon
6 these facts, I believe that Mr. Hunnell's and Mr. Loy's testimonies complaining about the
7 objections ORS never challenged and asserting that the demands to which we objected
8 sought information ORS needed is retaliation for the Company having expressed its
9 concerns to ORS at the February 19, 2020 meeting. I believe that the Company will be
10 deprived of a fair rate relief hearing if ORS's conduct in this regard is not rejected by the
11 Commission.

12 **Q. HOW WILL ORS'S CONDUCT THAT YOU HAVE DESCRIBED DEPRIVE THE**
13 **COMPANY OF A FAIR RATE RELIEF PROCEEDING?**

14 A. The implicit ORS contention that the Company has not cooperated in the ORS audit,
15 inspection, and examination not only paints the Company in a false light, it does so in a
16 backdoor manner by creating an issue in the merits phase of this proceeding that should
17 have been raised long before now. ORS has had the benefit of reviewing the Company's
18 objections to their requests for books, records and information for more than two months.
19 It has had the benefit of reviewing the Company's testimony for an even longer period of
20 time. If there was any basis to challenge the Company's objections, in fairness ORS should
21 have raised them before now. That it chose not to do so indicates to me that ORS believes
22 it can engage in inequitable conduct with impunity. I hope that the Commission will see
23 this ploy by ORS for what it is -- a cynical effort to treat a public utility unfairly in the

1 misguided belief that nothing can or will come of it – and emphatically reject it by giving
2 no weight to the testimonies of Mr. Hunnell and Mr. Loy.

3 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

4 A. Yes, it does.

1 Adjustment 2 - ORS Water/Wastewater Department and Woodland propose to
2 correct Other Accounts Receivable Adjustments by adding \$104 to the test year
3 amount to reflect actual test year adjustments of (\$844).

4 Adjustment 3 - ORS and Woodland propose to adjust salaries to reflect the amount
5 properly allocable to Woodland. Total salaries of Woodland and its affiliate
6 consisted of salaries, bonuses and other benefits paid to the officers and employees
7 shared between these two companies. In the determination of total salaries for
8 allocation, the Parties agreed to include only salaries and performance related
9 bonuses. The Parties considered salaries of \$311,522 appropriate for inclusion in the
10 calculation of total income for return. ORS Water/Wastewater Department and the
11 Company agreed that 14% of this total is properly allocable to Woodland. The 14%
12 was calculated by dividing Woodland's total customer units of 897 by the total
13 customer units of Woodland and its affiliate of 6,415 as of December 31, 2006. The
14 Parties calculated allocable wages of \$43,617. From this amount the per application
15 wages of \$61,747 were subtracted for an adjustment of (\$18,130).

16 Adjustment 4 and 5 - ORS and Woodland propose to reclassify legal and accounting
17 expenditures of (\$2,024) and (\$2,000), respectively, from Contractual Services
18 expenses to Rate Case expenses. (See Adjustment 10.)

19 Adjustment 6 - ORS and Woodland propose to adjust office space rent for Woodland
20 to 14% of the total office space rent for Woodland and its affiliate. Total office space
21 rent of Woodland and its affiliate of \$12,339, which included the office space rent
22 and additional rent per Woodland's lease contract, and the 14% allocation, described

1 the Office Manager's time attributed to each company. ORS allocated 35% of the
2 total shared security system expense of \$444 for an adjustment of (\$155).

3 Adjustment 13 – ORS proposes to adjust salaries to reflect Alpine's allocated
4 portion of merit bonuses and salaries for current employees. ORS computed
5 annualized salaries for Alpine and its affiliates as of May 2008 of \$244,451.
6 From this amount, ORS removed \$48,252 for salaries applicable to the affiliates,
7 resulting in Alpine's salaries for the test year of \$196,199. The amount removed
8 was based on the time employees attributed to each of Alpine's affiliates. ORS
9 reduced the per book salaries of \$265,881 to the calculated amount of \$196,199,
10 which resulted in an adjustment of (\$69,682).

11 Adjustment 14 – ORS proposes to adjust employee benefits to reflect the portion
12 allocated to Alpine using the same methodology for allocating salaries in
13 Adjustment 13. Total employee benefits paid in the test year for Alpine and its
14 affiliates was \$14,600. From this amount, ORS removed \$3,304 for affiliates,
15 resulting in Alpine's employee benefits portion for the test year of \$11,296. ORS
16 then subtracted the total employee benefits per books of \$8,080 from \$11,296 for
17 an adjustment of \$3,216.

18 Adjustment 15 – ORS proposes to adjust office rent for an increase in square
19 footage space and to remove a portion of rent for the shared office. ORS
20 computed total office rent for Alpine and its affiliates of \$20,061. From this
21 amount ORS removed 7,021 or 35%, as described in Adjustment 12, for Alpine's
22 affiliates, resulting in Alpine's total rent for the test year of \$13,040. ORS then

- 1.24 Identify any proposed construction and/or upgrades and identify any construction/upgrades that have taken place at facilities operated by Woodland since the last rate case application was filed, including the project description and timeframe for completion.

Response: Other than routine maintenance and repairs, Woodland has not undertaken any construction or upgrades since the last rate case was filed and does not anticipate any proposed construction or upgrades.

- 1.25 State the actual and projected costs of each construction and/or upgrade listed in response to 1.24.

Response: Please see the response to Audit Examination Question 1.24.

- 1.26 Identify all businesses that share the same office space as Woodland. If applicable, what is the allocation percentage for each business that shares the same office space as Woodland? What is the basis used to determine the allocation percentage?

Response: Woodland shares its office space with Alpine Utilities, Inc. Pursuant to Commission Order No. 1991-1023, dated November 20, 1991, issued in Docket No. 91-237-S, 86% of all shared expenses, including office expenses, are allocated to Alpine Utilities, Inc. and 14% are allocated to Woodland Utilities, Inc.

- 1.27 List all real estate and land rights owned by Woodland. If applicable, state the date of the purchases or acquisitions, the purchase price, and the location of the real estate and the physical areas to which any land rights apply.

Response: Please see the enclosed property tax information detailing all real estate and land rights owned by Woodland.

- 1.28 Provide a detailed listing of the number of residential and commercial customers as of March 1, 2007. Provide a detailed breakdown in the same format as Exhibit B, Page 5 of 5, Schedule E.

Response: Please see attached Exhibit.

- 1.29 State Woodland's practices and procedures for employee and officer bonuses.

Response: Mr. J. Donald Dial receives an incentive bonus equal to 50% of Woodland's annual net income in excess of \$30,000, computed before the bonus expenditure. Woodland currently does not have established practices and procedures for bonusing other officers and employees.

1 applications to be based on a historic 12-month test period. Traditionally, the Commission
2 allows adjustments to the Test Year to reflect known and measurable changes in the
3 Company's operating experience. Adjustments for "inflation" are not known and
4 measurable. Consistent with Commission Order Nos. 84-108 and 85-841 in which the
5 Commission expressly rejected adjustments for inflation, ORS recommends the Commission
6 reject recovery of these costs, which are based on projections and estimates, as it shifts the
7 risks from the Company to the customers. Customer's rates should not be calculated based
8 on projected costs that may never be incurred by the Company.

9 Adjustment #22 – Normalize O&M Labor Expenses

10 Based on the rebuttal testimony of Company witness Bateman, the Company agrees
11 with ORS's adjustment to update the salary allocator for DEP for wages and salaries and
12 related employee benefit costs to the same date as the O&M labor expense, July 1, 2018.

13 The Company does not agree with ORS's recommendation to remove 50% of the
14 Company's long and short term incentive ("LTI" and "STI") program costs for the reasons
15 discussed by Company witness Metzler. Company witness Metzler's rebuttal testimony
16 primarily addresses the Company's position in regards to overall compensation philosophy,
17 the compensation programs provided by DEP, why a competitive compensation package is
18 important, and how eliminating any portion of incentive compensation would decrease
19 employees' total compensation to less than competitive levels.

20 Company witness Metzler's rebuttal testimony discusses earnings per share ("EPS")
21 and also mentions Total Shareholder Return ("TSR"). A general definition of TSR is the
22 total return of a stock to an investor, or the capital gain plus dividends. Both EPS and TSR
23 are metrics that involve the performance of a Company's stock. Company witness Metzler's

1 rebuttal testimony includes Table 1: Summary 2017 STI Plan. This table indicates the
2 Executive Leadership Team's ("ELT") STI payouts are based on 50% EPS and all remaining
3 Non-ELT employees' STI payouts are based on 30% EPS.

4 Company witness Metzler's rebuttal testimony fails to include the components of the
5 Company's LTI plan where 70% of LTI awards are based 50% on EPS and 25% on TSR,
6 for a total 52.5% of the LTI payouts directly tied to the Company's stock performance. In
7 addition, 30% of the Company's LTI plan payouts are for Restricted Stock Units which are
8 retention payouts of Company stock that are not tied to any performance related metrics.
9 ORS determined that an average adjustment of 50% to total LTI and STI payouts was
10 reasonable and appropriate in this docket. An adjustment of 50% to total LTI and STI plan
11 payouts equitably allocates the costs between customers and shareholders. If employees are
12 largely driven by stock performance rather than the service to customers, a balanced
13 approach to equitably share those costs is important. ORS's recommendation does not
14 require DEP to reduce the total compensation package provided to their employees, only that
15 the costs of the LTI and STI plans be shared equally between customers and shareholders.

16 An increase in the Company's EPS and TSR, due to an increase in the Company's
17 rates through a rate case, with no actual improved Company efficiency or operating
18 performance, substantially influences the LTI and STI payouts made to employees. This
19 removes the incentive for employees to achieve earnings goals through performance,
20 customer satisfaction, efficiencies, and cost reduction measures. Shareholders are the
21 primary benefactors of increased EPS and TSR, of which these incentives are directly based.
22 It also shifts the risks from the Company to the customer if the Company is allowed recovery
23 of 100% of its LTI and STI payouts.

1 In addition, the Commission has the authority to regulate the Company's
2 management practices and decisions in regard to prudence but does not regulate the
3 Company's management of EPS or TSR. Allowing regulated utilities the recovery of
4 employee incentives based on stock performance, EPS or TSR, would limit the
5 Commission's ability to determine the prudence of those incentives. The Company's request
6 to allow cost recovery of employee incentives based on stock performance, EPS or TSR,
7 would also be a vast departure from this Commission's previous decisions on this issue. In
8 Order No. 2012-951, the Commission found that incentive compensation is an accepted and
9 necessary component of a utility company's compensation package and that there are sound
10 reasons for offering incentive compensation as part of a competitively reasonable
11 compensation package. In that order, the Commission also found that recovery of 50% of
12 this incentive compensation expense is just and reasonable.

13 ORS's adjustment to remove 50% of the LTI and STI program incentive costs is
14 reasonable as it is an equitable allocation of the costs between the customers and the
15 Company.

16 Adjustment #25 - Amortize Rate Case Costs

17 In rebuttal testimony, Company witness Bateman opposes ORS's recommendations
18 to exclude a return on the deferred rate case expenses during the deferral period and exclude
19 rate case expenses from rate base. ORS reaffirms its original position to exclude a return on
20 rate case expenses and exclude rate case expenses from rate base as the expenses are related
21 to O&M and are not capital in nature. The Company does not currently have a Commission
22 approved accounting order authorizing a deferral.

DEP's customers should not have to pay costs not associated with providing quality electric utility service. ORS's treatment of rodeo related expenses in this docket is consistent with ORS's treatment of rodeo related expenses in other SC gas and electric utility rate cases and Rate Stabilization Act filings. The Company is incorrect in its statement that ORS's non-allowable adjustment removed amounts associated with lump sum merit payments made by the Company.

Company witness Bateman, in her rebuttal testimony, specifically addresses organization dues, costs that are not related to SC, timing differences due to accrual accounting, and litigation expenses. Company witness Bateman specifically identifies the Company's request to recover from its customers membership dues for local Chambers of Commerce, the Historic Marion Revitalization Association, and the Darlington Downtown Revitalization Association. ORS removed 50% of the dues associated with Chambers of Commerce as part of its non-allowable adjustment consistent with Commission Order Nos. 94-1229, 01-887, and 02-285 where the Commission found that one-half of dues paid to state and local Chambers of Commerce should be included in cost of service. In regards to the transactions associated with the Historic Marion Revitalization Association and the Darlington Downtown Revitalization Association, ORS removed amounts associated with these transactions based on the Company's designation of them as being related to "Memberships in Social and Athletic Clubs (including but not limited to Chamber of Commerce, Rotary, Lions, etc.)." Removal of costs for transactions associated with memberships in social and athletic clubs is consistent with Commission Order Nos. 91-595 and 94-1229.

The regulatory compact depends on DEP's earnest and good-faith cooperation in all respects. It is troubling to the Commission that these expenses would have been passed through to customers if the ORS did not identify them. As a regulated utility, DEP has the right to the opportunity to earn a reasonable return on its prudently incurred costs. But a corollary of DEP's duty to request only just and reasonable rates is to only request recovery of such expenses as are just and reasonable. *See* S.C. Code § 58-27-810. DEP's status as a regulated monopoly means it owes a heightened responsibility to its customers.

For these reasons and on the evidence of record, the Commission finds that DEP's request to recover its expenditures for, Coal Ash Litigation Costs of \$389,995 (as previously discussed on pp. 69-75 of this Order), Other Employee Recognition & Reward of \$39,532, Other Miscellaneous in the amount of \$112,736, and Lobbying and Advertising Expenses of \$96,586, should be disallowed.

I. Bonuses and Incentive Compensation (Adjustments #22, 29)

ORS's Position

ORS recommends the costs of bonuses, DEP's Long-Term Incentive ("LTI") and Short-Term Incentive ("STI") plans, be shared equally between customers and shareholders. (Tr. p. 1234.) ORS witness Major testified this Commission should disallow 50% of the Company's LTI and STI program costs, resulting in a total disallowance of \$4,172,000 from the Company's adjustment. Tr. p. 1234. Through ORS witness Major's surrebuttal testimony, ORS updated the salary allocator for DEP wages and salaries to the same date as O&M labor expenses, July 1, 2018. (Tr. 1238-3.)

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Approximately 52.5% of DEP's LTI payouts are directly tied to the Company's stock performance. (Tr. p. 1238-4.) An additional 30% of DEP's LTI payouts, approximately \$947,000, are directly tied to retention. (Tr. p. 1238-4; *see also* Ex. 26.) For DEP's Executive Leadership Team ("ELT"), 50% of STI is directly tied to earnings. For all other employees, 30% of STI is directly tied to earnings. (*Id.*)

ORS witness Major testified an adjustment of 50% to LTI and STI program costs would equitably share the costs between customers and shareholders. (Tr. pp. 1238-4, -5.) Both customers and shareholders benefit when employees perform their duties. (*See* Tr. pp. 1270-71.) DEP's shareholders are the primary benefactors of increased EPS and TSR. (Tr. pp. 1238-4, -5.) EPS and TSR can increase "due to an increase in the Company's rates through a rate case with no actual improvement of company efficiency or operating performance[.]" (Tr. p. 1265.) Because these incentives are directly tied to stock performance rather than service to customers, a balanced approach is needed to fairly allocate the customer burden. (Tr. p. 1238-4.)

ORS's testimony addressed how the costs of funding DEP's employee compensation packages should be allocated among DEP's revenue sources. (Tr. p. 1238-5.) ORS did not make any recommendations as to how much DEP should pay its employees or to how any employees' incentive compensation packages should be structured or disagree with "the Company's total compensation program[.]" (Tr. pp. 1238-5, 1273.)

DEP's Position

DEP witness Metzler testified incentive pay is linked to specific goal accomplishments. Incentive pay thereby encourages employees to accomplish certain objectives, promotes DEP's overall success, and provides for a compensation package that is market-competitive. (Tr. p. 645-5, ll. 8-13.) DEP witness Ghartey-Tagoe noted, "[t]he Company has an obligation to be responsive

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to the market for talent and assure the competitiveness of the total compensation package it offers employees.” (Tr. p. 295, ll.5-8.) DEP witness Metzler stated that “lowering the competitive levels of pay and benefits would be imprudent.” (See Tr. p. 645-9, ll. 7-8.)

All employees have STI as a component of their total pay. STI is variable based on performance and is at-risk to the employees. (Tr. p. 645-5, ll. 4-5.) LTI is a major component of the compensation plans of executive employees. (See Tr. p. 645-5, ll. 15-17; p. 645-6, Figure 2.) A portion of DEP’s STI and LTI plans are tied to EPS and TSR, which both “measure overall financial performance.” (Tr. p. 645-7, ll. 18-19.)

DEP asserts that the ORS rationale for disallowing 50 percent of incentive compensation is misplaced because less than 50 percent of DEP incentive compensation was based on EPS or TSR. (See Tr. p. 646, ll. 10-18.) DEP’s ELT of 100 senior manager employees receives STI payouts-based 50 percent on EPS; non-ELT employees’ STI is based 30 percent on EPS. (Tr. pp. 647, 649.) The LTI for ELT plans is 50 percent based on EPS and 25 percent on TSR. (See Tr. p. 648, ll. 1-3; p. 649, ll. 4-10.) Thus, 75 percent of the long-term bonus potential of Duke’s top executives is tied exclusively to DEP’s stock performance. (Tr. p. 647, l. 21 to p. 648, l. 3.) An additional 547 employees are eligible for retention-based LTI that is wholly unrelated to DEP’s financial performance. (Tr. p. 647, l. 13 to p. 648, l. 10.)

DEP witness Metzler testified that “compensation and incentives tied to metrics such as EPS and total shareholder return benefit customers because those metrics reflect how employees’ contributions translate into overall financial performance.” (Tr. p. 643, ll. 7-11.) For example, Ms. Metzler testified that EPS “is a measure of the Company’s financial performance and that performance is reflective of how certain goals, such as safety, individual performance, team

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MAY 21, 2019
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performance and customer satisfaction, all of which are components of incentive pay, are met in a cost-effective way.” (Tr. p. 643, ll. 11-17.)

DEP offered as an alternative position to “remove the actual portions [of total LTI and STI compensation] that are related to EPS and TSR,” resulting in a disallowance of \$2,582,000.” (Tr. p. 650, ll. 14-19.). Excluding incentive compensation associated with EPS and TSR for just the CEO and ELT, the disallowance “would be approximately 622,000.” (Tr. p. 650, l. 23 to p. 651, l. 5.) DEP continues to maintain that retention awards, because “not based on EPS or TSR” should be allowed. (Tr. p. 662, l. 22 to p. 663, l. 4.)

Commission Findings

As this Commission has previously recognized, it is just, reasonable, and consistent with sound regulatory policy to allow the Company to recover a portion of the cost of incentive pay for its officers and employees through rates. *See* Docket No. 2012-218-E, Order No. 2012-951, p. 18. “This treatment of incentive or at-risk compensation is consistent with treatment afforded to this expense item in past rate cases for . . . other electric utilities.” *Id.* at 29. While “[t]he declaration of an existing practice may not be the substitute for an evaluation of the evidence,” *see Heater of Seabrook*, 332 S.C. at 26, 503 S.E.2d at 742, several additional considerations serve to establish that a blended allowance/disallowance of incentive compensation is reasonable and appropriate in this case as well.

Most importantly, the evidence of record suggests that appropriately structured incentive compensation programs benefit shareholders and customers. Shareholders and customers share the benefits of DEP attracting and retaining quality employees. We conclude they should equitably share in the costs. To some extent, the proper level of allowable incentive compensation is difficult

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to determine within the framework of a Test Year, given that “compensation payment levels may not be recurring” and no one can predict whether an eligible employee “will qualify for the incentive each year.” (Docket No. 1993-503-C, Order No. 94-1229, at 24.) What is clear is that in almost every case, incentive compensation benefits customers and it benefits shareholders.

We also note that incentives are not always awarded and, therefore, may be non-recurring items not appropriate for inclusion in the revenue requirement. (*See* Order No. 2002-214, Page 21.) After review of the record and consideration of all aspects of the benefits and costs to be allocated between the shareholders and ratepayers, it is just, equitable, and of sound regulatory discretion to disallow for recovery 75% of the South Carolina allocation of Duke Energy CEO Lynn Good’s compensation²⁵ and 50% of the compensation of the Company’s next three highest executives, and to otherwise accept the Company’s adjustment to normalize O&M labor expense and adjust O&M for executive compensation by (\$348,000) and income taxes by \$87,000.

The compensation packages DEP offers are under the control and discretion of management. The Commission does not direct the Company to compensate its employees under one method or another. The Commission agrees, as DEP witness Metzler testified, that “to attract a well-qualified and well-led workforce, the Company must compete in the marketplace to obtain the services of these employees.” (Tr. p. 642, ll. 8-11.) The Commission is not directing DEP in how it must structure its incentive compensation packages.

However, customers and shareholders share in the benefits of nearly every achievement a well-calibrated incentive compensation package facilitates. That is, when a DEP employee finds

²⁵ The Commission heard testimony involving myriad specific complaints at the public night hearings that the total compensation of Duke Energy CEO Lynn Good is excessive and should not be borne by the ratepayers.

a cheaper way to do the same job, customers can see a decrease in their monthly bill and shareholders an increase in their dividend. This Commission has previously approved limited recovery and a division of these costs between customers and shareholders. We believe that, based on the record evidence as a whole, that a similar split is reasonable under the circumstances now before this Commission.

J. Adjustment for Customer Connect (Adjustment #30)

ORS's Position

ORS witness Major through Surrebuttal Testimony updated ORS's position on Customer Connect O&M expense to accept the 2018 actual O&M amount recommended by DEP witness Bateman which, after factoring in the \$160,000 in Customer Connect expenses already included in the test year expenses, resulted in an adjustment to O&M of \$763,000. (Tr. p. 1238-9.)

ORS recommends that the Commission deny recovery from customers \$550,000 of inflation and contingency costs included by DEP in Adjustment #30 to normalize O&M for Customer Connect expenses based on the longstanding accounting principle that adjustments to Test Year expenses must be known and measurable. (*See* Tr. p. 1602-14, ll. 4-9.) As the inflation and contingency projections proposed by the Company are neither known nor measurable under regulatory principles, but merely estimates formulated by DEP employees, they should be denied by the Commission. (*See* Tr. p. 1238-9 (citing Commission Order Nos. 84-108 and 85-841).) Further, including these inflation and contingency estimates in the adjustment insulates the Company from any risks associated with project delays or cost overruns by shifting the risk to customers. (Tr. p. 1238-9.).

Palmetto Utilities
Docket No. 2019-281-S
First Request for Production of Books Records and Other Information

Question 1-37: State Palmetto's practices and procedures for employee and officer bonuses.

Response: Palmetto awards bonuses annually. In the test year, Palmetto awarded annual performance bonuses to seven key managers. They ranged from \$4,000 to \$20,000. The bonuses are based on goals and objectives/accomplishments achieved by the manager. The specifics of these are communicated to each manager throughout the year and change from year to year. However, depending on the managerial position, these goals always include an objective related to either safety, compliance with regulations, customer service or achieving budget targets. Six key non-management employees also received bonuses from \$1,000 to \$2,500.

The bonus policy benefits customers as it produces strong performance without committing to a higher salary which would be paid each and every year in the absence of this process. The annual bonus amount can vary within the allowed range base on that year's performance, whereas reductions in annual salary are very uncommon.

The President/CFO and SVP of operations also receive annual bonuses, based on similar goals/objectives listed above, which are set by Pacolet Milliken management.

Prepared by: Mark S. Daday

AUDIT REQUEST #8



ORS AUDIT DEPARTMENT REQUEST FORM
Please acknowledge receipt of request by email.

DATE: January 6, 2020
TO: Mark Daday/Lauren Hutson
UTILITY: Palmetto Utilities, Inc. Docket No. 2019-281-S
FROM: Christina Seale
PURPOSE: Overhead Adjustment

REQUEST THE FOLLOWING ITEMS BE PROVIDED BY: 1/16/2020

Pursuant to S.C. Code Ann. §§ 58-4-55 (Supp. 2018) and 58-5-230 the South Carolina Office of Regulatory Staff hereby makes the following request(s):

1. Please provide the last paychecks paid during the test year for each of the employees listed in tab "Salary Calculation" in workbook "2019 Palmetto Case Overhead Allocation".

RESPONSE: See Attachment for the 08.31.19 pay statements.

2. Has the 3% increase been paid to the Company employees? Refer to workbook "2019 Palmetto Case Overhead Allocation"; tab "Salary Calculation".

RESPONSE: No.

- a. If the answer to #2 above is no, when is the 3% increase expected to be paid?

RESPONSE: The 3% increase was changed by the parent company to a 2.5% increase in mid-December after the application was filed. Accordingly, the proposed overhead allocation adjustment for the Company should be reduced by \$5,707.32 for this change in payroll. These pay stubs reflecting the 2.5% increase paid on January 31st payroll will be available and provided at the end of January.

- b. If the answer to #2 above is yes, please provide the updated paystubs for each of the employees who received a 3% increase.

RESPONSE: N/A

3. Did the Company pay any employee incentive compensation during the test year? If so, please provide the dollar amount of incentive compensation by employee.

RESPONSE: Yes, see attachment for test year incentive compensation by employee paid during the test year (paid on December 31, 2018 and one employee on January 31, 2019). Incentive compensation is generally paid at year end and therefore test year expense includes accruals crossing two calendar years.

4. If the Company paid incentive compensation during the test year, please provide a copy of the Company's incentive compensation program. If the Company does not have a written company incentive compensation program explain why not and provide the criteria an employee must meet in order to qualify for incentive compensation.

RESPONSE: Please see response to First Request for Production of Books Records and Other Information 1.37.

5. Please provide the annual salaries for the 11 PME employees being allocated but not directly billed to Ni America; and for the two PME employees directly billed to Ni America. Also provide the last paystubs paid during the test year for each of the employees listed in tab "PME" in workbook "2019 Palmetto Case Overhead Allocation".

RESPONSE: See attachment, which is being provided on a confidential basis.

Employees	Date of Hire	Bonus	Exempt/Non-exempt Status
	9/13/2010	78,000.00	Exempt
	12/31/2015	500.00	Non-exempt
	5/7/2018	250.00	Non-exempt
	8/12/2013	4,000.00	Exempt
	8/20/2018	500.00	Non-exempt
	11/1/2014	2,500.00	Non-exempt
	12/1/2015	20,000.00	Exempt
	12/5/2011	10,000.00	Exempt
	12/31/2015	500.00	Non-exempt
	12/31/2015	500.00	Non-exempt
	7/11/2016	500.00	Non-exempt
	2/2/2016	5,000.00	Exempt
	12/31/2015	500.00	Non-exempt
	6/9/2010	15,000.00	Exempt
	11/1/2014	500.00	Non-exempt
	12/31/2015	500.00	Non-exempt
	3/21/2016	500.00	Non-exempt
	5/7/2018	1,500.00	Exempt
	3/21/2016	1,500.00	Exempt
	2/1/2016	6,000.00	Exempt
	10/1/2018	500.00	Non-exempt
	3/21/2016	500.00	Non-exempt
	1/8/2018	500.00	Non-exempt
	12/31/2015	500.00	Non-exempt
	12/4/2017	2,500.00	Non-exempt
	3/6/2017	1,000.00	Non-exempt
	1/13/2011	2,500.00	Non-exempt
	8/20/2018	250.00	Non-exempt
	10/2/2012	500.00	Non-exempt
	10/29/2018	500.00	Non-exempt
	7/9/2018	500.00	Non-exempt
	3/7/2016	20,000.00	Exempt
	N/A	73,500.00	Paid through Invoice

2018 Bonuses 251,500.00
Accrued as of 8/31/18 100,000.00
Accrual 09/18-12/19 151,500.00
2019 Accrual (\$20,000 per Month) 160,000.00
Test year expense 311,500.00

Note: \$73,500 was paid towards incentive compensation of Bryan Stone in January of 2019.

AUDIT REQUEST #12



ORS AUDIT DEPARTMENT REQUEST FORM
Please acknowledge receipt of request by email.

DATE: January 20, 2020
TO: Mark Daday/Lauren Hutson
UTILITY: Palmetto Utilities, Inc. Docket No. 2019-281-S
FROM: Christina Seale
PURPOSE: Follow-up to Audit Request #8

REQUEST THE FOLLOWING ITEMS BE PROVIDED BY: 1/24/2020

Pursuant to S.C. Code Ann. §§ 58-4-55 (Supp. 2018) and 58-5-230 the South Carolina Office of Regulatory Staff hereby makes the following request(s):

12.1 – Follow up to Audit Request 8.3 – In the Company’s overhead adjustment, a total of \$311,500 is included in total allocable overhead, whereas the total in “AR8.3” was \$251,500. Please explain and reconcile.

12.2– Follow up to Audit Request 8.4 – Provide a copy of the Company’s written Annual Performance Bonus policy referenced in the Company’s response to AIR 1.37.

12.3 – Follow up to Audit Request 8.4 – For each of the bonuses paid during the test year, please provide copies of the bonus supporting documentation written for each employee and manager stating the specific bonus goals, objectives and accomplishments achieved. Please elaborate and be specific on each objective category (safety, compliance with regulations, customer service and achieving budget targets), if it’s not already detailed in the bonus supporting documentation for each employee and manager.

Thank you,
Christina Seale

RESPONSE:

12.1 Please see the reconciliation on the 12.1 attachment.

12.2 The Company does not have a formal written policy as this is a relatively small company. The two senior managers Mark Daday (President) and Bryan Stone (COO) have authority to grant bonuses of up to 20% of base salary to certain managers. Mark Daday has final approval and Ralph Walker, Head of Energy at the ultimate parent Pacolet Milliken must sign off on the bonuses. Ralph Walker sets the Bonuses for Mark Daday and Bryan Stone. Only 50% of Bryan Stone’s bonus is paid by Ni Operating LLC, the shared services company.

12.3 Attached is a summary of Goals and Accomplishments for the 5 key managers in the Accounting Group. Their bonuses ranged from 5% to 15% and averaged 10.5%. No written summary was produced for six other minor employees as the bonuses were small dollar amounts \$2,500 or less and averaged \$1,913 for the 6.

The key bonus factors for all Finance employees was safety, compliance with regulations. Safety was measured by lost time incidents which there were none. Customer service was measured by complaints to the PSC or ORS which there were few and none related to rudeness of a CSR or billing rep. These goals are reviewed with the manager throughout the year usually verbally. Compliance is measured based on audits by external auditors. There were no negative audit comments and no material changes to the financial statements. There were no material comments in the internal controls audit.

The Operations Department is relatively small, since many day-to-day operational functions are contracted out to ESG, Inc. Executive management of the Operations Department is performed by Adam Delk and Tom Creasman (both Vice Presidents), who report to Bryan Stone (COO). As this is an extremely lean management structure, all executives perform a wide variety of functions, many of which are largely dependent upon the performance of others, or for other reasons are best evaluated on a subjective basis. In general, the primary factors considered involve holistic individual and group performance in the areas of regulatory compliance, operational efficiency, support of various customer service functions, providing oversight and guidance for ESG Inc. in its duties, safety, and cost-effective deployment of capital as needed.

The subjective evaluation of all three operational executives included that they worked extremely well as a team, were involved in making significant operational improvements in conjunction with ESG, Inc. (e.g. improvements in plant inspections and contract staffing levels and qualifications), including in the area of regulatory compliance (e.g. continued decreases in Spears Creek WWTP E.coli levels), had no operational-related safety incidents, controlled WWTP variable costs, and identified a cost effective capital project to reduce ambient odors in response to customer feedback. In addition, the group coordinated closely with a variety of developers to enable a near-record number of new customers to be added to the system, which helped reduce the magnitude of the required overall rate increase.

All other employees received a small Christmas bonus.

2018 Financial Goal and Accomplishments

Lizzie Wright – Controller

Financial Goal: Achieve NPMU corporate EBITDA of \$10.4 million for 2018.

Achievement of Goal:

- As of October 31, 2018, NPMU consolidated EBITDA is forecasted at \$10.5 million.

Accomplishments:

- Part of team that re-designed website which is being implemented by year-end
- Prepared year-end audited financial statements with no material audit adjustments and no auditor "Management Comments"
- Coordinated with billing the conversion of PRC customers from usage rate to flat-rate billing.
- Assisted with ORS data requests and continued to learn the ratemaking theory and process.
- Developed new monthly reporting packages for operations.
- Oversaw the timely closing and review of monthly financial packages.

Lauren Hutson – Mgr. Financial Planning and Analysis

Financial Goal: Achieve NPMU corporate EBITDA of \$10.4 million for 2018.

Achievement of Goal:

- As of October 31, 2018, NPMU consolidated EBITDA is forecasted at \$10.5 million.

Accomplishments:

- Palmetto Rate Case – Analyzed multiple potential settlement offers to ORS and verified the financial impact. Found \$800,000 error in ORS's audit report.
- 2018 PWR rate Case
 - Became rate case manager for the 2018 PWR rate Case
 - Worked on initial planning and strategy for the rate case
 - Managed the responses to over 75 interrogatories researching and answering many of them
 - She fully understands the economics and mathematics of ratemaking correcting Don Clayton on several occasions.
- Major participant in the effort to understand the ramifications of the Tax Cut and Jobs Act and resulting SCPSC order (which we are appealing) on our rates and ratemaking position working with the Burkett outside accounting firm
- Part of three-person team that interviewed and is hiring two replacement employees (Accounting Manager and A/P Specialist)

Nikia Morris – Mgr. Customer Service

Financial Goal: Achieve NPMU corporate EBITDA of \$10.4 million for 2018.

Achievement of Goal:

- As of October 31, 2018, NPMU consolidated EBITDA is forecasted at \$10.5 million.

Accomplishments:

- Managed the disconnection and certified letter process. From 12/31/17 to 9/30/18, we saw a 9% reduction in the 90-day past due levels at PRC.
- Revamped the process for monitoring installment plans to ensure proper monitoring and follow up.
- Assisted with the design of the new website.
- Recruited and trained new customer service supervisor.
- Assisted with responses to customer service-related rate case interrogatories.
- Recommended and coordinated community relations activities (Walk for Life and Families Helping Families).
- Oversees timely resolution of customer questions/complaints.

Neida Gonzalez -- Accounting Mgr.

Accomplishments:

- Assisted in coordinating timely responses to audit and data requests. Coordinated CAPEX invoice samples, rate case invoice samples, 2017 year-end audit request, etc. Provided timely and overall very complete and accurate.
- Researched and completed SC escheatment. Other states in process.
- Recruited and trained new accounts payable specialist.
- Assisted with forecasting cash needs.
- Recommended and worked with IT to develop a better process for processing customer refunds.
- Timely month-end close of companies.

April Braswell – Billing Mgr.

Financial Goal: Achieve NPMU corporate EBITDA of \$10.4 million for 2018.

Achievement of Goal:

- As of October 31, 2018, NPMU consolidated EBITDA is forecasted at \$10.5 million.

Accomplishments:

- Implemented RemitPlus creating efficiencies in the payment process; greatly reducing the time it takes to process check payments and reducing errors.
- Coordinated residential vacancy reviews and the door tag hanging process.
- Assisted with the conversion of PRC customers from usage to flat-rate billing.
- Recruited and trained a new payment coordinator.
- Assisted with responses to billing-related rate case interrogatories.
- Coordinated the timely mailing of rate case notices.
- Assisted with the design of the new website.
- Oversaw the timely mailing of monthly customer bills.

Ni Operating Bonus Compensation Accrual

	<u>13-60100 - Employee</u>	
December 2017 Ending Balance	\$	115,737.50
End of the Year Bonus	\$	150,000.00
Related SS & Medicare Tax	\$	11,475.00
Related Medicare		7.65% (2018 Distribution)
	\$	<u>277,212.50</u>

COA	13-60100-0-005	13-60100-0-002	13-24200-0-011			
			<u>Payout -</u>			
	<u>601.5 - Bonus</u>	<u>601.3.2 - SS/Medicare</u>	<u>Payout - Gross</u>	<u>Employer Tax</u>	<u>Total</u>	<u>Balance</u>
Jan-18	12,500.00	956.25	(110,000.00)	(5,737.50)	(102,281.25)	13,456.25
Feb-18	12,500.00	956.25			13,456.25	26,912.50
Mar-18	12,500.00	956.25			13,456.25	40,368.75
Apr-18	12,500.00	956.25			13,456.25	53,825.00
May-18	12,500.00	956.25			13,456.25	67,281.25
Jun-18	12,500.00	956.25			13,456.25	80,737.50
Jul-18	12,500.00	956.25			13,456.25	94,193.75
Aug-18	12,500.00	956.25			13,456.25	107,650.00
Sep-18	12,500.00	956.25			13,456.25	121,106.25
Oct-18	12,500.00	956.25			13,456.25	134,562.50
Nov-18	12,500.00	956.25			13,456.25	148,018.75
ember Accrual	20,000.00	1,530.00			21,530.00	169,548.75
Dec-18	12,500.00	956.25	(100,000.00)	(5,169.99)	(91,713.74)	77,835.01
ember Accrual	81,500.00	(1,868.01)			79,631.99	157,467.00
Total \$	251,500.00	\$ 11,136.99	\$ (210,000.00)	\$ (10,907.49)	\$ 41,729.50	

Footnote: At time of Bonus payout, two employees had reached the maximum withholding for Social security
This is the cause for the negative Tax adjustment

13-60100 - Employee

COA	13-60100-0-005	13-60100-0-002	13-24200-0-011
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U:\Utilities\Palmetto Utilities\Rate Case 2019\Discovery\ORS 558-4-55 Requests & Production (ShareFile)\Audit Department Requests\AR 12\AR 12.1 - Test Year Incentive Compensation

MD Rebuttal Exhibit 6
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Palmetto Utilities
Docket No. 2019-281-S
Ni America Operating, LLC Test Year Incentive Compensation by Employee
As of 08-31-19

Employees	Date of Hire	Bonus	Exempt/Non-exempt Status
	9/13/2010	78,000.00	Exempt
	12/31/2015	500.00	Non-exempt
	5/7/2018	250.00	Non-exempt
	8/12/2013	4,000.00	Exempt
	8/20/2018	500.00	Non-exempt
	11/1/2014	2,500.00	Non-exempt
	12/1/2015	20,000.00	Exempt
	12/5/2011	10,000.00	Exempt
	12/31/2015	500.00	Non-exempt
	12/31/2015	500.00	Non-exempt
	7/11/2016	500.00	Non-exempt
	2/2/2016	5,000.00	Exempt
	12/31/2015	500.00	Non-exempt
	6/9/2010	15,000.00	Exempt
	11/1/2014	500.00	Non-exempt
	12/31/2015	500.00	Non-exempt
	3/21/2016	500.00	Non-exempt
	5/7/2018	1,500.00	Exempt
	3/21/2016	1,500.00	Exempt
	2/1/2016	6,000.00	Exempt
	10/1/2018	500.00	Non-exempt
	3/21/2016	500.00	Non-exempt
	1/8/2018	500.00	Non-exempt
	12/31/2015	500.00	Non-exempt
	12/4/2017	2,500.00	Non-exempt
	3/6/2017	1,000.00	Non-exempt
	7/13/2011	2,500.00	Non-exempt
	8/20/2018	250.00	Non-exempt
	7/1/2012	500.00	Non-exempt
	10/29/2018	500.00	Non-exempt
	7/9/2018	500.00	Non-exempt
	3/7/2016	20,000.00	Exempt
	N/A	73,500.00	Paid through invoice

Note: \$73,500 was paid towards incentive compensation of Bryan Stone in January of 2019.

2018 Bonuses
Accrued as of 8/31/18
100,000.00
Accrual 09/18-12/19
151,500.00
2019 Accrual (\$20,000 per Month)
160,000.00
Test year expense
311,500.00

JAN 09 2019



P. O. BOX 10, 420 RIVER STREET
LOCKHART, SOUTH CAROLINA 29364

TELEPHONE (864) 545-2211
FAX (864) 545-2591

www.lockhartpower.com

NI PACOLET MILLIKEN INC
1710 WOODCREEK FARMS R
ELGIN SC 29045

Invoice No. MC-00287
Account No.

Attention: MARTHA TUTTLE
Fax: (000) 000-0000 Ext. 0000

Invoice Date: 12/31/2018

*- emailed DEANNA
to update CONTACT*

Total Sales Units	Description	Price	Total
1	שולחן עבודה למחשבים	\$79.500.00	\$79.500.00

AUDIT REQUEST #16



ORS AUDIT DEPARTMENT REQUEST FORM
Please acknowledge receipt of request by email.

DATE: February 10, 2020
TO: Mark Daday/Lauren Hutson
UTILITY: Palmetto Utilities, Inc. Docket No. 2019-281-S
FROM: Christina Seale/Daniel Sullivan
PURPOSE: Bonuses

REQUEST THE FOLLOWING ITEMS BE PROVIDED BY: 2/14/2020

Pursuant to S.C. Code Ann. §§ 58-4-55 (Supp. 2018) and 58-5-230 the South Carolina Office of Regulatory Staff hereby makes the following request(s):

1. Please provide the average bonuses paid for the years 2015, 2016, 2017, 2018 and 2019 for each employee / officer. See Audit Request #16 attachment for guidance.

RESPONSE: Please see attachment.

2. Please provide a listing of every account Ni America Operations bonuses are recorded in.

RESPONSE: Ni America Operating employee bonuses are accrued for in accounts 13-60100-0-005 and 13-24200-0-011.

MD Rebuttal Exhibit 6
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Palmetto Utilities
Docket No. 2019-281-S
Ni America Operating, LLC Test Year Incentive Compensation by Employee

Employees	Date of Hire	Terminated	2015	2016	2017	2018	2019	Average
	12/31/2015	N/A		500.00	500.00	500.00	500.00	500.00
	2/6/2017	6/22/2018			500.00			500.00
	4/9/2007	6/1/2016	3,060.00					3,060.00
	3/21/2016	3/5/2018		500.00	500.00			500.00
	8/26/2019	N/A					500.00	500.00
	11/25/2013	3/16/2018	1,803.00	1,500.00	500.00			1,267.67
	2/1/2013	4/4/2016	2,900.00					2,900.00
	5/7/2018	N/A				250.00	1,000.00	625.00
	8/12/2013	N/A	3,348.00	3,500.00	5,000.00	4,000.00	5,000.00	4,169.60
	6/9/2010	N/A	3,978.00	7,500.00	15,000.00	15,000.00	15,000.00	11,295.60
	11/1/2014	N/A	1,928.00	2,000.00	2,500.00	2,500.00	2,500.00	2,285.60
	12/1/2015	N/A		20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
	8/9/2017	8/16/2018			500.00			500.00
	8/20/2018	N/A				500.00	500.00	500.00
	9/13/2010	N/A	3,060.00	-	70,000.00	75,000.00	78,000.00	45,212.00
	12/5/2011	N/A	3,698.00	5,000.00	5,000.00	10,000.00	15,000.00	7,739.60
	1/14/2019	N/A					6,000.00	6,000.00
	12/31/2015	N/A		500.00	500.00	500.00	500.00	500.00
	12/31/2015	N/A		500.00	500.00	500.00	500.00	500.00
	7/11/2016	8/21/2019		500.00	500.00	500.00		500.00
	12/31/2015	6/24/2018		500.00	500.00			500.00
	2/2/2016	1/25/2019		2,500.00	5,000.00	5,000.00		4,166.67
	12/31/2015	4/9/2019		500.00	500.00	500.00		500.00
	6/13/2011	4/4/2016	4,589.00					4,589.00
	8/23/2019	1/14/2020					500.00	500.00
	11/1/2014	N/A	1,803.00	1,500.00	500.00	500.00	500.00	960.60
	1/7/2010	1/1/2016	3,060.00					3,060.00
	12/31/2015	N/A		500.00	500.00	500.00	500.00	500.00

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Palmetto Utilities
Docket No. 2019-281-S
Ni America Operating, LLC Test Year Incentive Compensation by Employee

Employees	Date of Hire	Terminated	2015	2016	2017	2018	2019	Average
	3/21/2016	N/A		500.00	500.00	500.00	1,000.00	625.00
	5/7/2018	N/A				1,500.00	1,500.00	1,500.00
	3/21/2016	N/A		500.00	500.00	1,500.00	1,500.00	1,000.00
	5/20/2019	N/A					1,000.00	1,000.00
	6/16/2014	4/4/2016	1,854.00					1,854.00
	12/10/2013	3/31/2017	1,803.00	500.00				1,151.50
	1/1/2008	3/2/2016	4,480.00					4,480.00
	2/1/2016	N/A		5,000.00	5,000.00	6,000.00	6,000.00	5,500.00
	10/1/2018	N/A				500.00	500.00	500.00
	6/18/2007	4/4/2016	3,760.00					3,760.00
	4/30/2015	5/11/2016	2,056.00					2,056.00
	3/21/2016	N/A		500.00	500.00	500.00	1,000.00	625.00
	4/1/2013	4/4/2016	1,857.00					1,857.00
	3/21/2016	3/5/2018		500.00	500.00			500.00
	1/8/2018	N/A				500.00	500.00	500.00
	12/31/2015	N/A		500.00	500.00	500.00	500.00	500.00
	9/1/2007	2/10/2017	5,081.00					5,081.00
	12/4/2017	N/A			500.00	2,500.00	3,500.00	2,166.67
	3/6/2017	7/12/2019			500.00	1,000.00		750.00
	3/16/2007	1/11/2016	3,060.00					3,060.00
	3/16/2007	1/1/2016	3,060.00					3,060.00
	7/13/2011	N/A	2,387.00	2,500.00	2,500.00	2,500.00	2,500.00	2,477.40
	8/20/2018	3/31/2019				250.00		250.00
	7/1/2012	N/A	863.00	500.00	500.00	500.00	500.00	572.60
	10/29/2018	10/21/2019						500.00
	3/16/2007	1/1/2016	3,060.00					3,060.00
	7/9/2018	N/A				500.00	500.00	500.00
	4/16/2007	12/31/2017	3,060.00	1,500.00				2,280.00

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Palmetto Utilities
Docket No. 2019-281-S
Ni America Operating, LLC Test Year Incentive Compensation by Employee

Employees	Date of Hire	Terminated	2015	2016	2017	2018	2019	Average
	3/7/2016	N/A		20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
			69,608.00	80,000.00	160,000.00	175,000.00	187,000.00	194,997.50

Summary of Effect of TCJA Lower Federal Income Tax Rate (21%)

2018 Effect	0
2019 Effect	214,786
2020 Estimate (thru 8/6/20)*	132,279
Total	347,065

* Uses the YTD April 30, 2020 actuals plus the estimate of May 1, 2020 through August 6, 2020 using the pro rata YTD April 30, 2020

	12 Months Ended 12/31/2018	
	Using 34% rate	Using 21% rate
Operating revenues	19,767,549	19,767,549
Operating expenses	11,580,016	11,580,016
Depreciation/Amortization	5,093,090	5,093,090
Interest Income (other Exp)	101,471	101,471
Other Income (Expense)	93,961	93,961
Interest expense	4,295,499	4,295,499
Taxable Income	(1,005,624)	(1,005,624)
State income tax	(50,281)	(50,281)
Federal income tax	(324,817)	(200,622)
Net income	(630,526)	(754,721)
Cumulative change in net income		(124,195)
Retention factor		75.05%

Revenue impact of cumulative change ("0"if Negative)

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	12 Months Ended 12/31/2019	
	Using 34% rate	Using 21% rate
Operating revenues	21,550,758	21,550,758
Operating expenses	11,660,770	11,660,770
Depreciation/Amortization	4,869,454	4,869,454
Interest Income (other Exp)	160,595	160,595
Other Income (Expense)	19,284	19,284
Interest expense	3,895,176	3,895,176
Taxable Income	1,305,237	1,305,237
State income tax	65,262	65,262
Federal income tax	421,591	260,395
Net income	818,383	979,580
Cumulative change in net income		161,197
Retention factor		75.05%

Revenue impact of cumulative change ("0"if Negative)

214,786

	4 Months Ended 4/30/2020	
	Using 34% rate	Using 21% rate
Operating revenues	7,230,978	7,230,978
Operating expenses	4,089,758	4,089,758
Depreciation/Amortization	1,713,658	1,713,658
Interest Income (other Exp)	59,546	59,546
Other Income (Expense)	0	0
Interest expense	1,042,973	1,042,973
Taxable Income	444,135	444,135
State income tax	22,207	22,207
Federal income tax	143,456	88,605
Net income	278,473	333,324
Cumulative change in net income		54,851
Retention factor		75.05%

Revenue impact of cumulative change ("0"if Negative)

73,086

Palmetto Utilities, Inc.

1710 Woodcreek Farms Road, Elgin SC 29045

February 10, 2020

Mr. Clint E. Shealy, P.E.
Assistant City Manager
Columbia Water
300 Laurel Street
Columbia, SC 29201

Via U.S and email: Clint.Shealy@columbiasc.gov

RE: Acquisition of Water Consumption Data

Dear Mr. Shealy:

I am writing to inquire of Columbia Water regarding the availability and cost associated with the provision of water consumption data (meter readings) for its water customers who receive wastewater service from Palmetto Utilities, Inc. ("PUI").

As you are aware, a portion of the wastewater collection system previously owned by Columbia Water and serving portions of unincorporated Richland County was sold to Palmetto of Richland County LLC ("PRC") in 2012. PRC was merged into PUI in 2017. Pursuant to the terms and conditions of the contract of sale to PRC, Columbia Water provided water consumption data to PRC in order to allow it to continue billing customers based on water consumption until such time as the flow from PRC to the Columbia Water Metro WWTP was redirected to PUI's own treatment facility. This redirection occurred in 2017 and since March of 2018, PUI has billed its customers for sewer service at a flat rate as approved by the Public Service Commission ("PSC").

A number of PUI's customers are requesting that PUI institute a usage measured rate structure based upon water consumption. Although the PSC has previously approved a flat rate for PUI for a variety of reasons, PUI wishes to address these customers' requests. Hence, this inquiry regarding the availability of this water consumption data and the cost of obtaining same.

For your reference in connection with this inquiry, PUI currently serves some 28,087 customer accounts within areas served by Columbia Water and would require water consumption data for each of these customer accounts. The charge imposed by Columbia Water for this service in 2018 for the approximate 12,113 customer accounts subject to the PRC/City asset purchase agreement was \$0.50 per meter read.

If Columbia Water is willing to provide this data, please provide me with general terms and conditions for doing so (or a proposed contract containing such terms and conditions). One term and condition that PUI is particularly interested in knowing is whether Columbia Water is in a position to

provide this data on a real-time basis (*i.e.*, contemporaneously with the submission of water bills to Columbia Water customers).

As I am certain you can appreciate, PUI would need to know that the charges for this service are no greater than that imposed by Columbia Water on any other entity. Accordingly, in considering any proposal that Columbia Water may be willing to make for the provision of this data, I would also need to know the following information:

1. The charge for supplying this data which is currently imposed on any other wastewater service provider that bills for its service based upon metered Columbia Water consumption;
2. The other terms and conditions for supplying this data to any other wastewater service provider;
3. The length of any contract between any other wastewater service provider and Columbia Water, and
4. The means and timetable by which disputed Columbia Water customer meter readings are addressed. I would appreciate your response to this request at your earliest possible convenience.

Thanking you for your assistance and consideration in this matter.

Sincerely,

/s/ *Mark S. Daday*

Mark S. Daday
President



May 6, 2020

Palmetto Utilities, Inc.

Mark Daday, President

1710 Woodcreek Farms Road

Elgin, SC 29045

RE: Common Data Consumption File & Response to request

Dear Mr. Daday.

I hope that you are doing well and keeping safe during this crisis. Please find below a response to your correspondence dated February 10, 2020.

The City of Columbia does not actively provide water consumption data to other waste water service providers on any scheduled basis. Recent inquiries related to providing consumption data on a scheduled or monthly basis resulted in a high level overview of the cost of providing such service. Factors considered in the high level overview include Administrative Charges, File Production, Customer Support and Data Transfer Maintenance.

The cost to provide monthly consumption readings for Palmetto Utilities Incorporated (PUI) is \$0.50 per read. The city consumption data file can be delivered after the processing of a monthly bill.

Columbia Water is currently upgrading to an automated meter reading system. Bill disputes for customers with upgraded meters can be resolved within 1 business day. Analog Meter readings are verified within 3 business days.

A 2-year agreement is standard with most city partnerships. However, contractual language will include 'opt' out options that require some period of advance notice.

I hope the above information is helpful and useful in your decision making process. Please advise if I can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read 'Angela Adams', with a large, stylized loop at the end.

Angela Adams

Special Project Administrator